

ERWIN UTILITIES

Financial Statements
With Supplementary Information

Year Ended June 30, 2016

ERWIN UTILITIES
Financial Statements With Supplementary Information
Year Ended June 30, 2016

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ERWIN UTILITIES
Financial Statements With Supplementary Information (Continued)

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ERWIN UTILITIES
Roster of Officials and Board Members
June 30, 2016

Officials

Mr. Lee Brown
Mr. Matthew Rice
Mrs. Andrea Talbert
Mr. Kip Lemmon

General Manager
Director of Water and Wastewater
Manager of Accounting, Finance and Customer Service
Director of Construction and Maintenance

Board Members

Mr. Thomas Harris - Chairman
Mr. Scott Charles
Mr. Gary Edwards
Mr. Kevin Horton
Mr. Russell Brackins

Independent Auditors' Report

Board of Public Utilities
Town of Erwin, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Erwin Utilities (the "Utility") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Utility as of June 30, 2016, and the respective changes in the financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only Erwin Utilities and do not purport to, and do not, present fairly the financial position of the Town of Erwin, Tennessee as of June 30, 2016 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

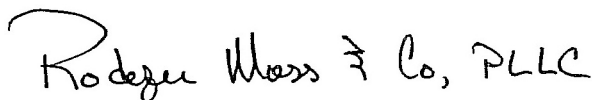
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Erwin Utilities' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2016, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.



Greeneville, Tennessee
September 26, 2016

ERWIN UTILITIES
Management's Discussion and Analysis
June 30, 2016

This discussion is intended to present a broad view of Erwin Utilities' financial position and activities for fiscal year 2016. The information in this letter is provided to comply with standards issued by the Governmental Accounting Standards Board (GASB) No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The discussion and analysis included in this document contain information for Electric, Water, Wastewater, and Fiber services provided by Erwin Utilities.

Erwin Utilities is owned by the Town of Erwin, Tennessee and is under the authority of the Board of Public Utilities, which consists of five (5) members. The day-to-day activities are controlled by the general manager and department managers.

Financial Statement Overview

The financial statements included in this report are comprised of the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows for four departments:

- Erwin Utilities' Electric Department
- Erwin Utilities' Water Department
- Erwin Utilities' Wastewater Department
- Erwin Utilities' Fiber Department

Each department operates independently from each other and shares costs when applicable. Costs are accounted for on a fair and consistent basis.

Highlights

- Paid the Town of Erwin, Unicoi County, Washington County, and Carter County a total of \$680,967 in transfers and tax equivalent payments for fiscal year 2016.
- No change in Electric customers, lost 13 customers in Water, 12 customers in Wastewater, and gained 344 customers in Fiber for fiscal year ended 2016. Fiber customer increase was due to the completion of the Phase II Fiber-to-the Home expansion.
- TVA Seasonal Time-Of-Use Wholesale Rates continued for fiscal year 2016. There was a total retail revenue increase effective October 1, 2015 with a net effect increase of less than 1%.
- Erwin Utilities adjusted water rates July 1, 2015, to cover increased operation and maintenance costs.
- Normal upgrades to power lines, water lines, and wastewater lines continued throughout fiscal year 2016.
- Principal debt repayments (net of refinanced amounts) for fiscal year 2016 on low interest loans for Erwin Utilities were as follows:

▪ Electric Department	\$323,099
▪ Water Department	\$123,621
▪ Wastewater Department	\$ 60,660
- 2015 Water Quality Report reported that all established standards were met or exceeded for Erwin Utilities' water system.

ERWIN UTILITIES
Management's Discussion and Analysis (Continued)

- The Phase II area Fiber-to-the-Home expansion was completed in February 2016 and increased the ability to serve approximately 1,200 additional customers. Total customers eligible to be served in Phase I and Phase II are at 2,500.
- Additional financing was not required to construct the Phase II area of the Fiber-to-the-Home expansion.
- In July 2016, the Phase III Fiber-to-the-Home expansion began with an estimated completion date of December 2016.
- The Wastewater Department is nearing completion of approximately \$2.7 million in improvements at both the wastewater treatment plant and in the wastewater collection system. Improvements at the wastewater treatment plant include new headworks, new influent pumps and variable frequency drives, new sludge pumps, new piping and flow regime changes to the rotating biological contactors (RBC's), new clarifier effluent launder covers, and improvements to the disinfection system. Work within the collection system consisted of lining approximately five miles of aging clay sewer pipes with new cured in place pipe and rehabilitating 28 brick manholes. The collection system work has effectively reduced groundwater infiltration and stormwater inflow into the sanitary sewer. All of the upgrades have improved the efficiency and performance of the wastewater treatment plant.

Table 1
Condensed Statement of Net Position

	June 30, <u>2016</u>	June 30, <u>2015</u>	Increase (Decrease)	<u>%</u>
Current assets	\$ 9,245,682	\$ 10,401,251	\$ (1,155,569)	-11.11%
Utility plant, net	46,850,573	40,306,120	6,544,453	16.24%
Other assets	<u>1,541,396</u>	<u>1,252,341</u>	<u>289,055</u>	23.08%
Total assets	<u>57,637,651</u>	<u>51,959,712</u>	<u>5,677,939</u>	10.93%
Deferred Outflows of resources	<u>1,484,113</u>	<u>482,019</u>	<u>1,002,094</u>	100.00%
Current liabilities	5,461,069	5,111,064	350,005	6.85%
Long-term liabilities	<u>13,542,018</u>	<u>11,842,973</u>	<u>1,699,045</u>	14.35%
Total liabilities	<u>19,003,087</u>	<u>16,954,037</u>	<u>2,049,050</u>	12.09%
Deferred inflows of resources	<u>270,644</u>	<u>196,271</u>	<u>74,373</u>	37.89%
Net position	<u>\$ 39,848,033</u>	<u>\$ 35,291,423</u>	<u>\$ 4,556,610</u>	12.91%

ERWIN UTILITIES
Management's Discussion and Analysis (Continued)

Table 2
Statement of Revenues and Expenses and Changes in Net Position

	June 30, <u>2016</u>	June 30, <u>2015</u>	Increase (Decrease)	<u>%</u>
Operating Revenue				
Sales	\$ 24,109,015	\$ 24,948,985	\$ (839,970)	-3.37%
Other operating revenue	<u>881,503</u>	<u>706,845</u>	<u>174,658</u>	24.71%
Total operating revenue	<u>24,990,518</u>	<u>25,655,830</u>	<u>(665,312)</u>	-2.59%
Operating Expenses				
Purchased power	15,854,416	17,160,449	(1,306,033)	-7.61%
Distribution expense	1,236,639	949,413	287,226	30.25%
Maintenance	1,198,165	1,044,619	153,546	14.70%
Customer accounts expense	1,257,638	1,171,633	86,005	7.34%
Depreciation	1,576,054	1,425,073	150,981	10.59%
General and administrative expense	899,484	836,058	63,426	7.59%
Treatment expense	687,334	656,535	30,799	4.69%
Pumping expense	98,527	74,766	23,761	31.78%
Collection expense	<u>79,951</u>	<u>63,463</u>	<u>16,488</u>	25.98%
Total operating expenses	<u>22,888,208</u>	<u>23,382,009</u>	<u>(493,801)</u>	-2.11%
Operating income	<u>2,102,310</u>	<u>2,273,821</u>	<u>(171,511)</u>	-7.54%
Non-Operating Income (Expense)				
Interest income	15,135	13,659	1,476	10.81%
Grant revenue	121,368	131,591	(10,223)	-7.77%
Contribution in aid of construction	3,262,320	-	3,262,320	0.00%
Interest expense	<u>(251,556)</u>	<u>(276,819)</u>	<u>25,263</u>	-9.13%
Total non-operating income	<u>3,147,267</u>	<u>(131,569)</u>	<u>3,278,836</u>	-2492.10%
Transfers, in lieu of taxes	<u>(692,967)</u>	<u>(621,627)</u>	<u>(71,340)</u>	11.48%
Change in net position	<u>\$ 4,556,610</u>	<u>\$ 1,520,625</u>	<u>\$ 3,035,985</u>	199.65%

ERWIN UTILITIES
Management's Discussion and Analysis (Continued)

Financial Information

Electric Department

Net income for fiscal year 2016 decreased from fiscal year 2015 due to the impact of energy efficiency and conservation.

Operating Revenue for FY 2015 = \$21,082,056

Operating Revenue for FY 2014 = \$21,906,441

Purchased power from the Tennessee Valley Authority for fiscal year 2016 totaled \$15,854,416, down \$1,306,033 from fiscal year 2015.

Debt of \$4.4 million remains in the Electric Department as recorded for FY 2016.

In March 2016, the Electric Department refinanced Series 2007 bonds to capitalize on favorable interest savings in the current market. A total of \$375,000 of the Series 2007 bonds were not eligible for refunding, and are scheduled for repayment in total by September 2017.

Water Department

Erwin Utilities' Water Department ended fiscal year 2016 with net income of \$2,279,800 up from \$454,312 for fiscal year 2015. There was a rate increase during the year. The Water Department assumed \$1,932,000 in assets from the State of Tennessee Welcome Center.

Debt of \$1.4 million remains in the Water Department as recorded for fiscal year 2016.

Wastewater Department

Erwin Utilities' Wastewater Department ended fiscal year 2016 with net income of \$1,567,779, up from \$477,347 for fiscal year 2015. The Wastewater Department assumed \$1,330,320 in assets from the State of Tennessee Welcome Center.

Debt of \$4.2 million exists in the Wastewater Department for fiscal year 2016.

Fiber Department

Erwin Utilities' Fiber Department ended fiscal year 2016 with a net loss of \$79,765, compared to \$74,891 for fiscal year 2015. This was the second year of operation.

Debt of \$225,000 exists in the Fiber Department for fiscal year 2016. Per the loan contract with the Electric Department, the first principal payment is due on January 1, 2019.

Other Financial Information

The details of the financial report and management's discussion are intended to provide customers and interested parties with a general and detailed overview of Erwin Utilities' financial position in all departments. Request for additional information should be addressed to Erwin Utilities, Manager of Accounting, Finance and Customer Service, P.O. Box 817, Erwin, Tennessee 37650.

ERWIN UTILITIES
Statement of Net Position
June 30, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 4,320,411
Certificates of deposit	1,941,664
Accounts receivable, net	2,076,835
Inventories	358,221
Current notes receivable	87,500
Accrued unbilled revenue	451,431
Other	<u>9,620</u>

Total current assets \$ 9,245,682

Utility Plant, net 46,850,573

Other Assets

Notes receivable - long term	567,708
Other assets	6,508
Restricted cash	445,007
Energy conservation program notes receivable	<u>522,173</u>

Total other assets 1,541,396

Total assets 57,637,651

DEFERRED OUTFLOWS OF RESOURCES

Pension	1,347,442
Deferred refunding charges	105,107
Unamortized discount on bonds payable	<u>31,564</u>

Total deferred outflows 1,484,113

LIABILITIES

Current Liabilities

Accounts payable	3,733,530
Current portion of long-term debt	620,988
Accrued compensated absences	769,137
Other	<u>337,414</u>

Total current liabilities 5,461,069

Long-Term Liabilities

Long-term debt	9,361,245
Pension	2,454,594
Conservation loans	540,191
Customer deposits	957,357
Other post employment benefits	<u>228,631</u>

Total long-term liabilities 13,542,018

Total liabilities 19,003,087

DEFERRED INFLOWS OF RESOURCES

Deferred pole rental	41,964
Bond premium	76,736
Pension	<u>151,944</u>

Total deferred inflows 270,644

NET POSITION

Net investment in capital assets	36,868,340
Restricted	
Bond reserve	279,275
Employee benefit plan	165,732
Unrestricted	<u>2,534,686</u>

Total net position \$ 39,848,033

See notes to financial statements.

ERWIN UTILITIES
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2016

Operating Revenue		
Sales	\$ 24,109,015	
Other operating revenue	<u>881,503</u>	
Total operating revenue		\$ 24,990,518
Operating Expenses		
Purchased power	15,854,416	
Distribution expense	1,236,639	
Maintenance	1,198,165	
Customer accounts expense	1,257,638	
Depreciation	1,576,054	
General and administrative expense	899,484	
Treatment expense	687,334	
Pumping expense	98,527	
Collection expense	<u>79,951</u>	
Total operating expenses		<u>22,888,208</u>
Operating income		2,102,310
Non-Operating Income (Expense)		
Interest income	15,135	
Grant revenue	121,368	
Contribution in aid of construction	3,262,320	
Interest expense	<u>(251,556)</u>	
Total non-operating expense		3,147,267
Transfers, in lieu of taxes		<u>(692,967)</u>
Change in net position		4,556,610
Net position at the beginning of the year		<u>35,291,423</u>
Net position at the end of the year		<u>\$ 39,848,033</u>

ERWIN UTILITIES
Statement of Cash Flows
Year Ended June 30, 2016

Cash Flows From Operating Activities

Cash received from customers	\$ 25,168,041	
Cash paid to suppliers and employees	<u>(20,802,378)</u>	
Net cash flows from operating activities		\$ 4,365,663

Cash Flows From Capital and Related Financing Activities

Acquisition and construction of capital assets	(4,858,189)	
Proceeds from long-term debt	3,814,657	
Principal paid on long-term debt	(2,964,881)	
Grant proceeds	121,368	
Interest expense	<u>(251,556)</u>	
Net cash flows from capital and related financing activities		(4,138,601)

Cash Flows From Investing Activities

Interest earned	14,327	
Net from certificates of deposit	<u>623,260</u>	
Net cash flows from investing activities		637,587

Cash Flows From Non-Capital Financing Activities

Transfers, in lieu of taxes	<u>(692,967)</u>	
Net cash flows from non-capital financing activities		<u>(692,967)</u>

Net change in cash and cash equivalents	171,682
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Cash and Cash Equivalents, Beginning of the Year	<u>4,593,736</u>
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Cash and Cash Equivalents, End of the Year	<u><u>\$ 4,765,418</u></u>
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Supplementary Disclosure of Non-Cash Capital and Related Financing Activities

Contribution in aid of construction	<u><u>\$ 3,262,320</u></u>
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ERWIN UTILITIES
Statement of Cash Flows (Continued)

Reconciliation of Operating Income to Net Cash Flows From Operating Activities	
Operating income	\$ 2,102,310
Adjustments to reconcile operating income to net cash flows from operating activities	
Depreciation	1,576,054
Changes in operating assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable	116,004
Other	(120)
Unbilled	96,003
Inventories	47,907
Notes receivable	87,500
Conservation loans	70,591
Other assets	(2,139)
Increase in deferred outflows pension	(1,002,093)
Increase in liabilities:	
Accounts payable	186,307
Accrued expenses	71,521
Accrued compensation	66,068
Customer deposits	32,767
Deferred pole rental	(2,363)
Other post employment benefits	(31,905)
Pension liability	874,515
Deferred inflows	<u>76,736</u>
Net cash flows from operating activities	<u>\$ 4,365,663</u>

ERWIN UTILITIES
Notes to Financial Statements
June 30, 2016

NOTE 1 - REPORTING ENTITY

Erwin Utilities (the "Utility") is a part of the primary government of the Town of Erwin, Tennessee (the "Town"), and the Utility's financial statements are included in the Town's financial statements. The Utility provides electric, water, wastewater, VoIP and internet services to its customers in Erwin, Tennessee.

These financial statements present only Erwin Utilities and are not intended to present fairly the financial position of the Town and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accounts of the Utility are an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Utility has implemented Governmental Accounting Standards Board ("GASB") Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.*"

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Measurement Focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the "economic resources management focus" and the "accrual basis of accounting." Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Accounting Policies - The Electric System follows accounting policies for public electric utilities as prescribed by the Federal Energy Regulatory Commission and TVA.

Cash Equivalents - The Utility considers certificates of deposit with original maturities of three months or less to be cash equivalents.

Accounts Receivable - are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amount through a provision for uncollectible accounts. Balances outstanding after reasonable collection efforts are written off to this allowance account. At June 30, 2016, the balance in allowance for uncollectible accounts was \$67,862.

Inventories - Inventories are recorded at average cost not to exceed current replacement cost.

Utility Plant - Utility plant is carried at cost. Depreciation is computed on the straight-line method using composite rates developed from depreciation studies. When assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal cost less salvage is charged or credited to the accumulated depreciation account. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. The estimated useful lives of capital assets are as follows:

Structures and permanent improvements	50 - 100 years
Equipment, furnishing, and distribution systems	10 - 50 years
Fiber services	20 years

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences - The cost of vacation pay and sick leave benefits is recognized as earned by employees. In the event of termination, an employee is reimbursed for accumulated vacation days not to exceed thirty workdays. Employees can accumulate sick leave, and upon retirement, employees are reimbursed for 60% of their accumulated sick leave benefits not to exceed 150 workdays. Upon the death of an active employee, beneficiaries will receive any accrued vacation and sick leave benefits as described under the above retirement provision.

Pension - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Erwin, Tennessee Board of Public Utilities Pension Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits - For purposes of measuring the other post-employment benefits ("OPEB") liability, the Utility recognize benefits when they are due and payable in accordance with the benefit terms and actuarial valuations.

Self Insurance Reserve - The Utility is self insured for the purpose of paying medical claims for the Utility's employees and their covered dependents to minimize the total cost of annual medical insurance to the Utility. Medical claims exceeding \$5,900 per covered person and when the minimum aggregate deductible of \$112,905 is met are covered through a private insurance carrier to the Utility. The cash held for the self insurance of \$165,732 is restricted at June 30, 2016.

Revenues and expenses - The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing wastewater services and delivering electricity, water, phone, and internet services in connection with ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Revenues are recognized on monthly cycle billings to customers. In order to properly match revenues with related cost, unbilled customer revenues are recorded at the end of each year.

Date of Management's Review - Management has evaluated events and transactions occurring subsequent to the statement of financial position for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

NOTE 3 - DEPOSITS

Deposits at June 30, 2016, consisted of cash, certificates of deposit, and interest and non interest bearing bank accounts. At June 30, 2016, bank balances aggregated \$5,597,352 of which \$500,000 was covered by federal depository insurance and \$5,097,352 was covered by the Tennessee Collateral Pool.

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 3 - DEPOSITS (Continued)

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the deposits, less amounts insured by federal deposit insurance. The collateral must be held by the Utility, its agent or by the Federal Reserve in the Utility's name.

Statutes also authorize the Utility to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, state pool investment funds, and money market mutual funds. Statutes require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

A summary of cash and certificates of deposit at June 30, 2016, is as follows:

Interest bearing accounts	\$ 4,751,516
Non interest bearing accounts	7,052
Certificates of deposit	1,941,664
Petty cash	<u>6,850</u>
	<u>\$ 6,707,082</u>

NOTE 4 - UTILITY PLANT ACTIVITY

Utility plant activity for the year ended June 30, 2016, was as follows:

Utility Plant	Balance 6/30/15	Additions	Retirements	Balance 6/30/16
Capital assets not being depreciated				
Land and land rights	\$ 1,540,445	\$ 131,516	\$ -	\$ 1,671,961
Construction in progress	<u>1,274,976</u>	<u>2,233,939</u>	<u>(335,008)</u>	<u>3,173,907</u>
Total capital assets not being depreciated	<u>2,815,421</u>	<u>2,365,455</u>	<u>(335,008)</u>	<u>4,845,868</u>
Other capital assets				
Structures and permanent improvements	16,861,209	1,683,640	(10,541)	18,534,308
Equipment, furnishings, and distribution systems	<u>36,344,235</u>	<u>4,305,872</u>	<u>(362,498)</u>	<u>40,287,609</u>
Total other capital assets	<u>53,205,444</u>	<u>5,989,512</u>	<u>(373,039)</u>	<u>58,821,917</u>
Less accumulated depreciation for				
Structures and permanent improvements	(5,338,467)	(868,888)	297,258	(5,910,097)
Equipment, furnishings, and distribution system	<u>(10,376,278)</u>	<u>(707,166)</u>	<u>176,329</u>	<u>(10,907,115)</u>
Total accumulated depreciation	<u>(15,714,745)</u>	<u>(1,576,054)</u>	<u>473,587</u>	<u>(16,817,212)</u>
Other capital assets, net	<u>37,490,699</u>	<u>4,413,458</u>	<u>100,548</u>	<u>42,004,705</u>
Utility Plant, net	<u>\$ 40,306,120</u>	<u>\$ 6,778,913</u>	<u>\$ (234,460)</u>	<u>\$ 46,850,573</u>

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 5 - LONG-TERM DEBT ACTIVITY

Long-term debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and notes payable					
Electric	\$ 4,777,381	\$ 2,400,000	\$(2,780,600)	\$ 4,396,781	\$ 450,174
Water	1,515,267	-	(123,621)	1,391,646	100,810
Wastewater	<u>2,839,809</u>	<u>1,414,657</u>	<u>(60,660)</u>	<u>4,193,806</u>	<u>70,004</u>
Total bonds and notes payable	<u>\$ 9,132,457</u>	<u>\$ 3,814,657</u>	<u>\$(2,964,881)</u>	<u>\$ 9,982,233</u>	<u>\$ 620,988</u>

Long-term debt consisted of the following at June 30, 2016:

Tennessee Municipal Bond Fund, variable interest rate, .39% at June 30, 2016, due in varying amounts through May 2023	\$ 1,061,000
Series 2016 revenue bonds, 3% interest rate at June 30, 2016, due in varying amounts through September 2027	2,400,000
Series 2015 revenue bonds, 4% interest rate at June 30, 2016, due in varying amounts through June 2045	2,750,000
Series 2010 revenue bonds, 3.00% interest rate, due in varying amounts through June 2025	840,000
State Revolving Fund Loan, 2.42% interest rate, due in varying amounts through March 2033	486,368
State Revolving Fund Loan, 1.39% interest rate, due in varying amounts through December 2046	1,414,657
Note payable to Rural Development, no interest, due in monthly variable payments through September 2023.	271,873
Note payable to Rural Development, no interest, due in monthly variable payments through February 2024.	383,335
Series 2007 revenue bonds, 3.75% interest rate, due in varying amounts through September 2017	<u>375,000</u>
	9,982,233
Amounts due within one year	<u>(620,988)</u>
Total long-term debt	<u>\$ 9,361,245</u>

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 5 - LONG-TERM DEBT ACTIVITY (Continued)

Future maturities of long-term debt as of June 30, 2016, are as follows:

Year Ended June 30	Principal	Interest
2017	620,988	286,631
2018	682,542	312,210
2019	700,585	206,235
2020	723,948	192,438
2021	747,630	177,767
2022-2026	2,650,856	679,767
2027-2031	1,375,578	405,101
2032-2036	827,815	282,344
2037-2041	874,835	174,003
2042-2046	748,524	50,812
2047	28,932	118
Total	<u>\$ 9,982,233</u>	<u>\$ 2,767,426</u>

At June 30, 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to long-term activity from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred refunding charges	\$ 105,107	\$ -
Unamortized discount on notes payable related to G.O. Refunding Bond, Series 2015	31,564	-
Unamortized premium on notes payable related to G.O. Refunding Bond, Series 2016	<u>-</u>	<u>76,736</u>
Total	<u>\$ 136,671</u>	<u>\$ 76,736</u>

During the year end June 30, 2016, the Utility refunded and defeased in substance its outstanding series 2007 revenue bonds of 2,370,000, carrying an interest rate of 3.75%, with new series 2016 bonds of \$2,551,129, issued at a rate of 3%. Both series require level annual debt service payments. \$375,000 of the series 2007 revenue bonds were not refunded and will be paid in full by the Utility as of September 2017.

The reoffering premium of \$151,129 was used to pay the underwriter's discount of \$19,986, the cost of issuance of \$56,750, and the call premium of \$74,393. The net proceeds of \$2,400,000 were used to purchase U.S. government securities. These securities were deposited with an escrow agent to provide for the debt service on the 2007 debt to the call date of September 2017.

At June 30, 2016, the Utility had \$279,275 restricted in its bond debt service fund to meet the current reserve requirements of all long-term debt principal and interest as required by Regions Bank.

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 6 - RETIREMENT PLANS

Defined Benefit Retirement Plan

Plan Description

The Pension Plan for the Employees of the Erwin, Tennessee Board of Public Utilities (the "Plan") is individually designed by USI Consulting Group, established October 1, 2006, as a continuation of the CSA Plan. The Plan is a non-contributory, defined benefit retirement plan that provides retirement benefits as well as death benefits payable to surviving spouses. All employees of the Utility are eligible to participate in the Plan upon attaining the age of 21 and completing one year of service. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at age 65. A reduced retirement benefit is available to vested members at the age of 55. At the option of the employee, retirement benefits may be received in the form of a lump-sum distribution or an annuity over a period of 60, 120, or 180 months, or an employee may elect a 50% lump sum distribution with the remaining balance in monthly annuity payments for 60, 120, or 180 months.

An employee joining the Plan after August 1, 1995, is vested in his or her account in accordance with the following schedule:

Years of Employment Percentage
at Termination Account Vested

Less than 3	0%
3	20%
4	40%
5	60%
6	80%
7 or more	100%

Benefits Provided:

Members become eligible to retire the first day of the month coincident with or the next following attainment of the later of age 65 or the 5th anniversary of the day they first became a Participant in the Plan. Members are eligible for early retirement the first day of the month coincident with or the next following attainment of age 55. Monthly benefits are determined by a formula as follows a) 2% of average monthly earnings times benefit service after July 31, 1995 b) 2% of average monthly earnings times benefit service before August 1, 1995, to a maximum of 5 years but not more than the lesser of benefit service after July 31, 1995, and benefit service from date of hire to August 1, 1995 and c) past service benefit as defined in the Plan. Early retirement benefit is reduced 4/10 of 1% per month for the number of months between early retirement date and normal retirement date.

Employees Covered by Benefit Terms

Retirees and beneficiaries currently receiving benefits	11
Terminated employees entitled to deferred benefits	1
Active employees	43
	<u>55</u>

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 6 - RETIREMENT PLANS (Continued)

Contributions

The Utility makes employer contributions at the rate set by the actuarial valuation. For the year ended June 30, 2015, the Actuarially Determined Contribution ("ADC") for the Utility was \$436,093 based on a rate of 18.79 percent of covered required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the cost of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

Valuation Date - The Plan's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 2014.

Actuarial Assumptions - The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.0 percent
Salary Increases	4.0 percent, average, including inflation
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

Mortality rates - Pre-retirement: IRS 2014 Combined Static Mortality Table
Post-retirement: Tennessee Consolidated Retirement System Mortality Table

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period of July 1, 2010 through June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
Large Value	10.00%
Large Growth	10.00%
Mid-Cap Value	5.00%
Mid-Cap Growth	5.00%
Small Value	2.50%
Small Growth	2.50%
World Stock	10.00%
Convertibles	6.00%
Market Neutral	5.00%
World Bond	5.00%
High Yield Bond	7.50%
Intermediate-Term Bond	15.00%
Short-term Bond	8.00%
Bank Loan	7.50%
Money Market Taxable	1.00%

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 6 - RETIREMENT PLANS (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumes that the Plan contributions will be made according to their established funding policy to contribute actuarially determined contribution. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 7/1/14	\$ 6,346,135	\$ 4,766,056	\$ 1,580,079
Changes for the year:			
Service Cost	174,531	-	174,531
Interest	470,513	-	470,513
Differences between expected and actual experience	215,267	-	215,267
Changes of assumptions	628,364	-	628,364
Contributions - employer	-	440,218	(440,218)
Contributions - employee	-	-	-
Net investment income	-	176,342	(176,342)
Benefit payments, including refunds of employee contributions	(503,429)	(503,429)	-
Administrative expense	-	(2,400)	2,400
Other changes	-	-	-
Net changes	<u>985,246</u>	<u>110,731</u>	<u>874,515</u>
Balances at 6/30/15	<u>\$ 7,331,381</u>	<u>\$ 4,876,787</u>	<u>\$ 2,454,594</u>

Pension plan Fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued USI Consulting Group financial report.

Sensitivity of the net position liability changes in the discount rate. The following presents the net position liability of the Utility calculated using the discount rate of 7 percent, as well as what the net position liability would be if it were calculated using a discount rate that is 1 percentage point lower (6 percent) or 1 percentage point higher (8 percent) than the current rate:

	1 % Decrease (6.00)	Current Discount Rate (7.00)	1 % Increase (8.00)
Net pension liability (asset)	\$ 3,321,391	\$ 2,454,594	\$ 1,714,217

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 6 - RETIREMENT PLANS (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Plan recognized pension expense of \$371,025. At June 30, 2015, the Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 191,401	\$ -
Changes of assumptions	565,783	-
Net difference between projected and actual earnings on pension plan investments	142,958	151,944
Contributions subsequent to measurement date of June 30, 2015	<u>447,300</u>	<u>-</u>
Total	<u>\$ 1,347,442</u>	<u>\$ 151,944</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	\$	78,620
2017		78,620
2018		78,620
2019		129,270
2020		93,529
Thereafter		<u>289,539</u>
Total	<u>\$</u>	<u>748,198</u>

Payable to the Pension Plan

At June 30, 2016, the Utility had no payable for the outstanding amount of contributions to the pension plan.

Defined Contribution Plan

The Utility offers the Erwin Utilities 401(k) Retirement Plan (the "Plan") to its employees administered by Wells Fargo, N.A. All employees are eligible to participate in the Plan once they have completed one year of service as defined by a 12 month period and having worked at least 1,000 hours and have reached age 21. Normal retirement eligibility begins at age 65 and early retirement is the first day of the month coinciding with or following the date the participant has attained age 55. Participants are always vested 100% in rollover contributions and salary deferrals. The Utility does not contribute to the Plan. The maximum contribution for employees cannot exceed the lesser of \$53,000 or 100% of their annual salaries. The effective date of the plan was January 1, 1986. The plan was amended and restated effective July 1, 2015, to comply with tax law changes. Employee contributions for the year ended June 30, 2016, were \$83,785.

NOTE 7 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The GASB established standards for the measurement, recognition, and reporting of other post-employment benefits ("OPEB"). OPEB includes post-employment benefits other than pension, which, for the Utility, is presently limited to post-employment health insurance and life insurance for retired employees who are at least age 55 and their spouses. GASB requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the unfunded liability. This was effective for the Utility for the fiscal year beginning July 1, 2009.

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 7 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

During 2015, the Utility had an actuarial study performed to determine the Utility's actuarial accrued liability for post-employment health insurance and life insurance benefits. The present value of the unfunded actuarial accrued OPEB liability was \$228,631 as of the actuarial valuation date, July 1, 2015.

The valuation assumed a funding interest rate of 4%; a medical trend rate of 9%; an ultimate medical trend rate of 5%; that the ultimate trend rate will be reached in 2019; an Entry Age Normal actuarial cost method; annual payroll increase of 2.5%; and a remaining amortization period of 22.83.

The retiree pays 100% of the medical and life premiums and the spouse pays 100% of the medical premiums. During the year ended June 30, 2016, expenditures of \$40,449 were incurred for postretirement health care and life insurance. Current year cost of approximately \$40,449 includes a net OPEB obligation liability of \$228,631 at June 30, 2016.

The annual required contribution that will be reported in the next fiscal year is estimated to be \$42,434, which includes the normal cost of the plan and the amortization over 22.83 years of any unfunded actuarial liability.

NOTE 8 - POWER CONTRACT

The Utility has a power contract with TVA whereby the system purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract.

NOTE 9 - INCOME TAX STATUS

The Utility is a non-profit organization, and is exempt from federal income tax under Internal Revenue Code Section 501(c)(12).

NOTE 10 - TVA RESIDENTIAL ENERGY EFFICIENCY PROGRAM

Under a contract with Tennessee Valley Authority, the Utility participates in home energy efficiency programs providing low-interest loans to qualified customers. Customer repayments are remitted to Regions Bank.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Utility to concentrations of credit risk consist primarily of accounts receivable. Because the Utility requires a deposit if a customer is considered a credit risk, management does not believe significant credit risk exists at June 30, 2016.

NOTE 12 - RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of loss is covered by commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

In addition, the Utility provides medical insurance to employees through a partially self-funded health insurance plan and maintains a self-insured reserve as described in Note 1. Under the Plan, the employee and employer share the cost of eligible medical expenses that are applied toward the deductible and/or coinsurance of the high deductible health plan provided by the Utility. Once the deductible amount and/or coinsurance under the fully-insured plan are exceeded, covered expenses become reimbursable at 100% under the fully-insured plan. The out of pocket maximum deductibles for the fully-insured plan are \$8,000 for single and \$16,000 for family. Deductibles under the partially self-funded Plan are \$750 for single and \$1,500 for family. The out of pocket maximum for the employees under the partially self-funded insurance plan are \$2,100 for single and \$4,200 for family.

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 12 - RISK MANAGEMENT (Continued)

The Utility is responsible for the difference between the deductibles between the fully-insured insurance plan and the partially self-funded insurance plan. The Utility also has stop-loss insurance coverage for excess medical liabilities. The stop-loss coverage provides for a maximum eligible claim expense per covered person of \$5,900 and a minimum aggregate deductible of \$112,905 before reimbursements are received by the Utility. Claims incurred during the year were approximately \$77,000 and claims paid were approximately \$77,000. There were no claims accrued as of June 30, 2016. For the fiscal year ended June 30, 2016, reimbursements received under the excess coverage were \$ 0.

NOTE 13 - CONTRIBUTION IN AID OF CONSTRUCTION

During the year, the Utility assumed the water and sewer assets from the Welcome Center built in Unicoi County in 2010. Assets assumed consisted of a wastewater pump station with sewer lines connecting to the Utility, a water booster station, storage tank, and water lines connecting to the Utility. Contribution in aid of construction was recorded for the assumed assets of \$3,262,320.

NOTE 14 - SEGMENT INFORMATION

The Utility issues general obligation, public improvement, and revenue bonds to support the services provided to its customers and the Town of Erwin. The financial statements report general obligation and public improvement bonds for the electric, wastewater, and water and a revenue bond for the wastewater segment. Condensed financial information for electric, wastewater, water, and fiber follows:

Condensed Statement of Net Position	Electric System	Water System	Wastewater System	Fiber System
ASSETS				
Current assets	\$ 6,453,749	\$ 1,636,852	\$ 1,419,497	\$ 95,959
Utility plant, net	21,741,306	11,550,215	13,507,193	51,859
Other assets	1,541,396	-	-	-
Total assets	<u>29,736,451</u>	<u>13,187,067</u>	<u>14,926,690</u>	<u>147,818</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>893,361</u>	<u>296,437</u>	<u>287,578</u>	<u>6,737</u>
LIABILITIES				
Current liabilities	4,161,594	253,479	1,100,611	80,760
Long-term liabilities	7,048,665	1,882,190	4,608,268	227,895
Total liabilities	<u>11,210,259</u>	<u>2,135,669</u>	<u>5,708,879</u>	<u>308,655</u>
DEFERRED INFLOWS OF RESOURCES	<u>207,791</u>	<u>33,428</u>	<u>28,869</u>	<u>556</u>
NET POSITION				
Net investment in capital assets	17,344,525	10,158,569	9,313,387	51,859
Restricted	445,007	-	-	-
Unrestricted	1,422,230	1,155,838	163,133	(206,515)
Total net position	<u>\$ 19,211,762</u>	<u>\$ 11,314,407</u>	<u>\$ 9,476,520</u>	<u>\$ (154,656)</u>

ERWIN UTILITIES
Notes to Financial Statements (Continued)

NOTE 14 - SEGMENT INFORMATION (Continued)

Condensed Statement of Revenues, Expenses, and Changes in Net Position	Electric System	Water System	Wastewater System	Fiber System
Operating revenues	\$ 21,082,056	\$ 2,224,285	\$ 1,490,951	\$ 193,226
Depreciation	964,050	367,144	243,804	1,056
Other operating expenses	18,658,470	1,431,957	959,627	262,100
Total operating expenses	19,622,520	1,799,101	1,203,431	263,156
Operating income	1,459,536	425,184	287,520	(69,930)
Non-Operating Income (Expense)				
Interest income	18,937	2,951	3,082	65
Grant revenue	-	-	121,368	-
Contribution in aid of construction	-	1,932,000	1,330,320	-
Interest expense	(116,124)	(25,628)	(109,804)	(9,900)
Total non-operating	(97,187)	1,909,323	1,344,966	(9,835)
Transfers, in lieu of taxes	(573,553)	(54,707)	(64,707)	-
Change in net position	788,796	2,279,800	1,567,779	(79,765)
Net position at the beginning of the year	18,422,966	9,034,607	7,908,741	(74,891)
Net position at the end of the year	\$ 19,211,762	\$ 11,314,407	\$ 9,476,520	\$ (154,656)
Condensed Statement of Cash Flows	Electric System	Water System	Wastewater System	Fiber System
Net cash provided (used) by				
Operating activities	\$ 2,257,175	\$ 866,644	\$ 1,250,626	\$ (8,782)
Capital and related financing activities	(3,037,692)	(324,663)	(738,426)	(47,720)
Investing activities	642,197	2,649	2,576	65
Non-Capital financing activities	(573,553)	(54,707)	(64,707)	-
Net increase (decrease)	(711,873)	489,923	450,069	(56,437)
Cash, beginning of the year	2,912,869	850,941	677,530	152,396
Cash, end of the year	\$ 2,200,996	\$ 1,340,864	\$ 1,127,599	\$ 95,959

REQUIRED SUPPLEMENTARY INFORMATION

ERWIN UTILITIES
Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)
June 30, 2016

Measurement Period Ended	<u>6/30/2014</u>	<u>6/30/2015</u>
Total pension liability		
Service cost	\$ 167,818	\$ 174,531
Interest	457,033	470,513
Differences between expected and actual experience	-	215,267
Changes of assumptions	-	628,364
Benefit payments, including refunds of employee contributions	<u>(402,082)</u>	<u>(503,429)</u>
Net change in total pension liability	222,769	985,246
Total pension liability - beginning	<u>6,123,366</u>	<u>6,346,135</u>
Total pension liability - ending (a)	<u><u>\$ 6,346,135</u></u>	<u><u>\$ 7,331,381</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 454,675	\$ 440,218
Net investment income	566,307	176,342
Benefit payments, including refunds of employee contributions	(402,082)	(503,429)
Administrative expense	<u>(2,460)</u>	<u>(2,400)</u>
Net change in plan fiduciary net position	616,440	110,731
Plan fiduciary net position - beginning	<u>4,149,616</u>	<u>4,766,056</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 4,766,056</u></u>	<u><u>\$ 4,876,787</u></u>
Net pension liability - ending (a) - (b)	1,580,079	2,454,594
Plan fiduciary net position as a percentage of the total pension liability	75.10%	66.52%
Covered - employee payroll	\$ 2,182,269	\$ 2,343,377
Net pension liability as a percentage of covered employee payroll	72.41%	104.75%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

ERWIN UTILITIES
Schedule of Contributions (Unaudited)
June 30, 2016

Measurement period ended June 30,	2014	2015	2016
Actuarially determined contribution	\$ 454,682	\$ 436,093	\$ 447,300
Contributions in relation to the actuarially determined contribution	<u>454,675</u>	<u>440,218</u>	<u>447,300</u>
Contribution deficiency (excess)	<u>\$ 7</u>	<u>\$ (4,125)</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,182,269	\$ 2,343,377	\$ 2,900,396
Contributions as a percentage of covered employee payroll	20.83%	18.79%	15.42%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of the beginning of the fiscal year (July 1).

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal, level percentage of compensation
Amortization method:	Level amortization, closed
Remaining amortization period:	30 years
Asset valuation method:	Market value of plan assets adjusted to phase in asset gains and losses over a five-year period at a rate of 20% a year. Valuation assets are further limited to a 20% corridor around market value.
Salary increases:	4.0% per annum
Investment rate of return:	7.0% per annum
Retirement age:	15% retire at age 60 and 61, 50% retire at age 62, 25% retire at age 63 and 64, and 100% retire at age 65
Mortality:	Pre-retirement: IRS 2015 Combined Static Mortality Table Post-retirement: TCRS Mortality Table

ERWIN UTILITIES
Schedule of Funding Progress of Other Post Employment Benefits (Unaudited)
June 30, 2016

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2009	\$ -	\$ 355,344	\$ 355,344	0%	\$ 2,125,744	16.7%
July 1, 2012	\$ -	\$ 477,149	\$ 477,149	0%	\$ 2,364,090	20.2%
July 1, 2015	\$ -	\$ 379,127	\$ 379,127	0%	\$ 2,718,521	13.9%

SUPPLEMENTARY INFORMATION

ERWIN UTILITIES
Schedule of Expenditures of Federal and State Awards
June 30, 2016

Grantor Agency	Program Title	CFDA Number	Balance July 1, 2015	Receipts	Expenditures	Balance June 30, 2016	Expenditures to Subrecipients
Capitalization Grants							
United States Department of Environmental Protection Agency passed through Tennessee Department of Environment and Conservation	for Clean Water State Revolving Funds	66.458	\$ -	\$ 1,365,276	\$ 1,412,188	¹ \$ (46,912)	\$ -
Total grants from federal and state allocation			<u>\$ -</u>	<u>\$ 1,365,276</u>	<u>\$ 1,412,188</u>	<u>\$ (46,912)</u>	<u>\$ -</u>

¹ This is a state revolving loan fund which includes both federal and state money. Federal money for the year ended June 30, 2016 was \$879,736. 5% loan forgiveness of \$121,368 is also included in the expenditures noted above.

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal and state award activity of Erwin Utilities under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Erwin Utilities, it is not intended to and does not present the financial position, change in net position, or cash flows of Erwin Utilities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Erwin Utilities has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

ERWIN UTILITIES
Departmental Statement of Net Position
June 30, 2016

	Electric System	Water System	Wastewater System	Fiber System	Eliminations	Total
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 1,755,989	\$ 1,340,864	\$ 1,127,599	\$ 95,959	\$ -	\$ 4,320,411
Certificates of deposit	1,670,755	102,151	168,758	-	-	1,941,664
Accounts receivable, net	2,251,930	81,901	103,379	-	(360,375)	2,076,835
Inventories	226,524	111,936	19,761	-	-	358,221
Current notes receivable	87,500	-	-	-	-	87,500
Accrued unbilled revenue	451,431	-	-	-	-	451,431
Other	9,620	-	-	-	-	9,620
Total current assets	6,453,749	1,636,852	1,419,497	95,959	(360,375)	9,245,682
Utility Plant, net	21,741,306	11,550,215	13,507,193	51,859	-	46,850,573
Other Assets						
Notes receivable - long term	567,708	-	-	-	-	567,708
Other assets	6,508	-	-	-	-	6,508
Restricted cash	445,007	-	-	-	-	445,007
Conservation notes receivable	522,173	-	-	-	-	522,173
Total other assets	1,541,396	-	-	-	-	1,541,396
Total assets	29,736,451	13,187,067	14,926,690	147,818	(360,375)	57,637,651
DEFERRED OUTFLOWS OF RESOURCES						
Pension	788,254	296,437	256,014	6,737	-	1,347,442
Deferred refunding charges	105,107	-	-	-	-	105,107
Unamortized premium on bonds payable	-	-	31,564	-	-	31,564
Total deferred outflows	893,361	296,437	287,578	6,737	-	1,484,113
LIABILITIES						
Current Liabilities						
Accounts payable	2,723,530	25,491	984,509	-	-	3,733,530
Current portion of long-term debt	450,174	100,810	70,004	-	-	620,988
Accrued compensated absences	627,464	103,700	37,973	-	-	769,137
Intercompany payable	80,435	-	-	54,940	(135,375)	-
Accrued expenses	279,991	23,478	8,125	25,820	-	337,414
Total current liabilities	4,161,594	253,479	1,100,611	80,760	(135,375)	5,461,069
Long-Term Liabilities						
Conservation loans	540,191	-	-	-	-	540,191
Customer deposits	952,507	4,850	-	-	-	957,357
OPEB	163,554	46,493	18,093	491	-	228,631
Pension	1,445,806	540,011	466,373	2,404	-	2,454,594
Long-term debt	3,946,607	1,290,836	4,123,802	225,000	(225,000)	9,361,245
Total long-term liabilities	7,048,665	1,882,190	4,608,268	227,895	(225,000)	13,542,018
Total liabilities	11,210,259	2,135,669	5,708,879	308,655	(360,375)	19,003,087
DEFERRED INFLOWS OF RESOURCES						
Deferred pole rental	41,964	-	-	-	-	41,964
Bond premium	76,736	-	-	-	-	76,736
Pension	89,091	33,428	28,869	556	-	151,944
Total deferred inflows	207,791	33,428	28,869	556	-	270,644
NET POSITION	\$ 19,211,762	\$ 11,314,407	\$ 9,476,520	\$ (154,656)	\$ -	\$ 39,848,033

See accompanying independent auditors' report.

ERWIN UTILITIES
Departmental Statement of Revenues and Expenses and Changes in Net Position
Year Ended June 30, 2016

	Electric System	Water System	Wastewater System	Fiber System	Eliminations	Total
Operating Revenue						
Sales	\$ 20,252,626	\$ 2,196,241	\$ 1,466,922	\$ 193,226	\$ -	\$ 24,109,015
Other operating revenue	<u>829,430</u>	<u>28,044</u>	<u>24,029</u>	<u>-</u>	<u>-</u>	<u>881,503</u>
Total operating revenues	<u>21,082,056</u>	<u>2,224,285</u>	<u>1,490,951</u>	<u>193,226</u>	<u>-</u>	<u>24,990,518</u>
Operating Expenses						
Purchased power	15,854,416	-	-	-	-	15,854,416
Distribution expense	861,849	165,901	-	208,889	-	1,236,639
Maintenance	802,535	261,217	133,140	1,273	-	1,198,165
Customer accounts expense	742,208	349,858	146,968	18,604	-	1,257,638
Depreciation	964,050	367,144	243,804	1,056	-	1,576,054
General and administrative expense	397,462	253,084	215,604	33,334	-	899,484
Treatment expense	-	401,897	285,437	-	-	687,334
Pumping expense	-	-	98,527	-	-	98,527
Collection expense	-	-	79,951	-	-	79,951
Total operating cost	<u>19,622,520</u>	<u>1,799,101</u>	<u>1,203,431</u>	<u>263,156</u>	<u>-</u>	<u>22,888,208</u>
Operating income (loss)	<u>1,459,536</u>	<u>425,184</u>	<u>287,520</u>	<u>(69,930)</u>	<u>-</u>	<u>2,102,310</u>
Non-Operating Income (Expense)						
Interest income	18,937	2,951	3,082	65	(9,900)	15,135
Grant revenue	-	-	121,368	-	-	121,368
Contribution in aid of construction	-	1,932,000	1,330,320	-	-	3,262,320
Interest expense	<u>(116,124)</u>	<u>(25,628)</u>	<u>(109,804)</u>	<u>(9,900)</u>	<u>9,900</u>	<u>(251,556)</u>
Total non-operating income (expense)	<u>(97,187)</u>	<u>1,909,323</u>	<u>1,344,966</u>	<u>(9,835)</u>	<u>-</u>	<u>3,147,267</u>
Transfers, in lieu of taxes	<u>(573,553)</u>	<u>(54,707)</u>	<u>(64,707)</u>	<u>-</u>	<u>-</u>	<u>(692,967)</u>
Change in net position	<u>788,796</u>	<u>2,279,800</u>	<u>1,567,779</u>	<u>(79,765)</u>	<u>-</u>	<u>4,556,610</u>
Net position at the beginning of the year	<u>18,422,966</u>	<u>9,034,607</u>	<u>7,908,741</u>	<u>(74,891)</u>	<u>-</u>	<u>35,291,423</u>
Net position at the end of the year	<u>\$ 19,211,762</u>	<u>\$ 11,314,407</u>	<u>\$ 9,476,520</u>	<u>\$ (154,656)</u>	<u>\$ -</u>	<u>\$ 39,848,033</u>

See accompanying independent auditors' report.

ERWIN UTILITIES
Departmental Statement of Cash Flows
Year Ended June 30, 2016

	Electric System	Water System	Wastewater System	Fiber System	Eliminations	Total
Cash Flows From Operating Activities						
Cash received from customers	\$ 21,366,096	\$ 2,265,531	\$ 1,478,563	\$ 193,226	\$ (135,375)	\$ 25,168,041
Cash paid to suppliers and employees	<u>(19,108,921)</u>	<u>(1,398,887)</u>	<u>(227,937)</u>	<u>(202,008)</u>	<u>135,375</u>	<u>(20,802,378)</u>
Net cash flows from operating activities	<u>2,257,175</u>	<u>866,644</u>	<u>1,250,626</u>	<u>(8,782)</u>	<u>-</u>	<u>4,365,663</u>
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of capital assets	(2,540,968)	(175,414)	(2,103,987)	(37,820)	-	(4,858,189)
Proceeds from long-term debt	2,400,000	-	1,414,657	-	-	3,814,657
Principal paid on long-term debt	(2,780,600)	(123,621)	(60,660)	-	-	(2,964,881)
Grant proceeds	-	-	121,368	-	-	121,368
Interest expense	<u>(116,124)</u>	<u>(25,628)</u>	<u>(109,804)</u>	<u>(9,900)</u>	<u>9,900</u>	<u>(251,556)</u>
Net cash flows from capital and related financing activities	<u>(3,037,692)</u>	<u>(324,663)</u>	<u>(738,426)</u>	<u>(47,720)</u>	<u>9,900</u>	<u>(4,138,601)</u>
Cash Flows From Investing Activities						
Interest earned	18,937	2,649	2,576	65	(9,900)	14,327
Net redemption of certificates of deposit	<u>623,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>623,260</u>
Net cash flows from investing activities	<u>642,197</u>	<u>2,649</u>	<u>2,576</u>	<u>65</u>	<u>(9,900)</u>	<u>637,587</u>
Cash Flows From Non-Capital Financing Activities						
Transfers, in lieu of taxes	<u>(573,553)</u>	<u>(54,707)</u>	<u>(64,707)</u>	<u>-</u>	<u>-</u>	<u>(692,967)</u>
Net cash flows from non-capital financing activities	<u>(573,553)</u>	<u>(54,707)</u>	<u>(64,707)</u>	<u>-</u>	<u>-</u>	<u>(692,967)</u>
Net change in cash and cash equivalents	(711,873)	489,923	450,069	(56,437)	-	171,682
Cash and Cash Equivalents, Beginning of the Year	<u>2,912,869</u>	<u>850,941</u>	<u>677,530</u>	<u>152,396</u>	<u>-</u>	<u>4,593,736</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 2,200,996</u>	<u>\$ 1,340,864</u>	<u>\$ 1,127,599</u>	<u>\$ 95,959</u>	<u>\$ -</u>	<u>\$ 4,765,418</u>
Supplementary Disclosure of Non-Cash Capital and Related Financing Activities						
Contribution in aid of construction	<u>\$ -</u>	<u>\$ 1,932,000</u>	<u>\$ 1,330,320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,262,320</u>

See accompanying independent auditors' report.

ERWIN UTILITIES
Departmental Statement of Cash Flows (Continued)

	Electric System	Water System	Wastewater System	Fiber System	Eliminations	Total
Reconciliation of Operating Income to Net Cash Flows From Operating Activities						
Operating income	\$ 1,459,536	\$ 425,184	\$ 287,520	\$ (69,930)	\$ -	\$ 2,102,310
Adjustments to reconcile operating income to net cash flows from operating activities						
Depreciation	964,050	367,144	243,804	1,056	-	1,576,054
Changes in operating assets and liabilities						
(Increase) decrease in assets:						
Accounts receivable	(48,230)	41,246	(12,387)	-	135,375	116,004
Other	(120)	-	-	-	-	(120)
Unbilled	96,003	-	-	-	-	96,003
Inventories	36,774	7,094	4,039	-	-	47,907
Notes receivable	87,500	-	-	-	-	87,500
Conservation loans	70,591	-	-	-	-	70,591
Other assets	(2,139)	-	-	-	-	(2,139)
(Increase) decrease in deferred outflows	(631,689)	(198,031)	(167,873)	(4,500)	-	(1,002,093)
Increase (decrease) in liabilities:						
Accounts payable	(535,275)	10,991	723,718	(13,127)	-	186,307
Accrued expenses	48,252	6,800	(1,651)	18,120	-	71,521
Accrued compensation	53,991	7,306	4,771	-	-	66,068
Accrued intercompany	80,435	-	-	54,940	(135,375)	-
Customer deposits	32,767	-	-	-	-	32,767
Deferred pole rental	(2,363)	-	-	-	-	(2,363)
Other post employment benefits	(41,439)	6,516	2,527	491	-	(31,905)
Pension liability	511,591	192,394	166,158	4,372	-	874,515
Deferred inflows	76,940	-	-	(204)	-	76,736
Net cash flows from operating activities	<u>\$ 2,257,175</u>	<u>\$ 866,644</u>	<u>\$ 1,250,626</u>	<u>\$ (8,782)</u>	<u>\$ -</u>	<u>\$ 4,365,663</u>

See accompanying independent auditors' report.

ERWIN UTILITIES
Schedule of Investments
June 30, 2016

Description	Maturity Date	Interest Rate	Carrying Amount
Certificates of deposit	August-2016	0.30%	\$ 102,151
Certificates of deposit	September-2016	0.15% - .30%	\$ 1,212,101
Certificates of deposit	September-2016	0.30%	168,758
Certificates of deposit	October-2016	0.30%	<u>458,654</u>
			<u>\$ 1,839,513</u>

ERWIN UTILITIES
Schedule of Utility Rates
June 30, 2016

Utility rates in effect at June 30, 2016 consist of the following:

Electric System:

Residential Rate - Schedule RS

Customer Charge - per delivery point per month	\$16.99
Energy Charge - per kilowatt hour (kWh) per month	\$.08846

General Power Rate - Schedule GSA

Part 1.	Not to exceed 50 kW or 15,000 kWh per month:	
	Customer Charge #1 - per delivery point per month	\$17.14
	1 Phase under 50kW	
	Customer Charge #2 - per delivery point per month	\$25.37
	3 Phase under 50kW	\$1.0227
	Energy Charge - per kWh	
Part 2.	Greater than 50 kW but not more than 1,000 kW or 50 kW or less with greater than 15,000 kWh:	
	Customer Charge #1 - per delivery point per month	\$46.68
	3 Phase self-contained metering	
	Customer Charge #2 - per deliver point per month	\$60.89
	3 Phase secondary instrument rated metering	
	Customer Charge #3 - per deliver point per month	\$106.55
	3 Phase primary instrument rated metering	
	Demand Charge - per kW per month:	
	First 50 kW	\$0.00
	Excess over 50 kW	\$12.99
	Energy Charge - per kWh per month:	
	First 15,000 kWh	\$1.0424
	Additional kWh	\$.06210
Part 3.	Greater than 1,000 kW but not more than 5,000 kW:	
	Customer Charge - per delivery point per month	\$202.96
	Demand Charge - per kW per month:	
	First 1,000 kW	\$13.17
	Excess over 1,000 kW	\$15.35
	Excess Taking > 2,500 kW or Contract	\$15.35
	Energy Charge - per kWh per month	\$.06190

General Power Rate - Schedule TDMSA MSA Summer

Customer Charge - per delivery point per month	\$1,500.00
Administrative Charge	\$350.00
5MR Administrative Charge	\$350.00
Demand Charge	
Summer period - On peak kWh	\$9.52
Summer period - Off peak kWh	\$9.52
Energy Charge - Summer period - On peak kWh	.06940
All seasons off peak hours use of demand adjustment	
First 200 HUD	\$.04617
Next 200 HUD	\$.02069
Off peak kWh – Additional HUD	\$.01831

ERWIN UTILITIES
Schedule of Utility Rates (Continued)

Outdoor Lighting Rate - Schedule LS

Part A. Street Lighting, Traffic Signals, and Athletic Field Lighting:

Customer Charge	\$2.50
Energy Charge - per kWh per month	\$.06489
Facility Charge - annual rate	12%

Part B. Charges for Outdoor Lighting for Individual Customers:

Charges Per Fixture Per Month

<u>Type of Fixture</u>	<u>Lamp Size (Watts)</u>	<u>Monthly Charge</u>
Mercury Vapor	175	\$ 8.89
	400	16.22
High Pressure Sodium	100	8.38
	250	13.51
	400	17.76
Metal Halide	400	19.66
	1,000	35.44
LED	64	8.95
	143	17.80
	215	19.11
	202	24.18
	325	27.46

Additional Facilities

Pole	\$8.00 per month per pole
Transformer	\$4.40 per month

Erwin Water System:

Customer Charge - per month based on meter size

5/8" x 3/4" & 3/4"	\$ 10.75	\$ 16.14
1"	14.99	22.49
1 1/2"	28.30	42.45
2"	33.65	50.48
3"	68.30	102.46
4"	134.90	202.36
6"	268.18	402.28
8"	475.46	713.19

Water Charge - cost per 1,000 gallons	2.52	3.78
---------------------------------------	------	------

Wastewater System:

Customer Charge - per month per unit	\$ 7.05	\$ 10.58
User Charge - cost per 1,000 gallons	4.73	7.10

See accompanying independent auditors' report.

ERWIN UTILITIES
Schedule of Utility Rates (Continued)

Fiber System:

Internet

Residential - 25 Mbps	\$49.95/month
Residential - 100 Mbps	69.95/month
Residential - 1 Gigabit	199.95/month
Business- 25 Mbps	59.95/month
Business- 100 Mbps	79.95/month
Business - 1 Gigabit	499.95/month

Voice

Residential	24.95/month
Business	34.95/month

ERWIN UTILITIES
Schedule of Number of Customers Served
June 30, 2016

The number of customers served at June 30, 2016, is as follows:

Electric System:	
Residential	7,598
Other	1,329
Water System:	
Residential	4,584
Other	607
Wastewater System:	
Residential	3,010
Other	603
Fiber	
Residential	434
Other	67

ERWIN UTILITIES
Schedule of Unaccounted for Water (Unaudited)
June 30, 2016

AWWA Free Water Audit Software:
Reporting Worksheet

WAS v5.0
American Water Works Association

?

Click to access definition

+

Click to add a comment

Water Audit Report for: **Erwin Utilities**

Reporting Year: **2016** **7/2015 - 6/2016**

Please enter data in the white cells below. Where available, metered values should be used; if **1** values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input

All volumes to be entered as: **MILLION GALLONS (US) PER YEAR**

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

----- Enter grading in column 'E' and 'J' ----->

Master Meter and Supply Error Adjustments
Pcnt: Value:

WATER SUPPLIED

Volume from own sources: + ? 9 535.551 MG/Yr

Water imported: + ? n/a 0.000 MG/Yr

Water exported: + ? n/a 0.000 MG/Yr

WATER SUPPLIED: 535.551 MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Billed metered: + ? 9 433.540 MG/Yr

Billed unmetered: + ? n/a 0.000 MG/Yr

Unbilled metered: + ? n/a 0.000 MG/Yr

Unbilled unmetered: + ? 0.000 MG/Yr

FALSE

AUTHORIZED CONSUMPTION: ? 433.540 MG/Yr

Click here: ?
for help using option buttons below

Pcnt: 1.25% Value: 24061 MG/Yr

Use buttons to select percentage of water supplied
OR value

WATER LOSSES (Water Supplied - Authorized Consumption) 102.011 MG/Yr

Apparent Losses

Unauthorized consumption: + ? 0.000 MG/Yr

Use Customer Retail Unit Cost

FALSE

Customer metering inaccuracies: + ? 8 0.000 MG/Yr

Systematic data handling errors: + ? 1.084 MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: ? 1.084 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? 100.927 MG/Yr

WATER LOSSES: 102.011 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: ? 102.011 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: + ? 10 107.8 miles

Number of active AND inactive service connections: + ? 10 5,185

Service connection density: ? 48 conn./mile main

Are customer meters typically located at the curbstop or property line? Yes

Average length of customer service line: + ?

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: + ? 10 89.2 psi

COST DATA

Total annual cost of operating water system: + ? 10 \$1,645,650 \$/Year

Customer retail unit cost (applied to Apparent Losses): + ? 10 \$3.20 \$/1000 gallons (US)

Variable production cost (applied to Real Losses): + ? 10 \$718.47 \$/Million gallons

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 87 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Volume from own sources

2: Unauthorized consumption

3: Systematic data handling errors

ERWIN UTILITIES
Schedule of Unaccounted for Water (Unaudited) (Continued)

AWWA Free Water Audit Software.
System Attributes and Performance Indicators

Water Audit Report for: Erwin Utilities

Reporting Year: 2016 7/2015 - 6/2016

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 87 out of 100 ***

System Attributes:

Apparent Losses:		6.809	MG/Yr
+	Real Losses:	91.166	MG/Yr
=	<u>Water Losses:</u>	97.974	MG/Yr
Unavoidable Annual Real Losses (UARL):		44.29	MG/Yr
Annual cost of Apparent Losses:		\$21,788	
Annual cost of Real Losses:		\$65,500	

Valued at **Variable Production Cost**
Return to Reporting Worksheet to change this assumption

Performance Indicators:

Non-revenue water as percent by volume of Water Supplied:	19.5%	
Non-revenue water as percent by cost of operating system:	5.6%	Real Losses valued at Variable Production Cost
Apparent Losses per service connection per day:	3.60	gallons/connection/day
Real Losses per service connection per day:	48.17	gallons/connection/day
Real Losses per length of main per day*:	N/A	
Real Losses per service connection per day per psi pressure:	0.54	gallons/connection/day/psi
From Above, Real Losses = Current Annual Real Losses (CARL):	91.17	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	2.06	

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

ERWIN UTILITIES
Schedule of Long-Term Debt Maturities by Issue
June 30, 2016

Year Ended June 30	Series 1997		Series 2015		Series 2007		Series 2010		Series 2016	
	General Obligation Bond		Revenue Bonds		Revenue Bond		Revenue Bond		Revenue Bond	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 130,300	\$ 4,138	\$ 55,000	\$ 95,306	\$ 185,000	\$ 10,594	\$ 130,000	\$ 22,144	\$ -	\$ 28,239
2018	136,800	3,630	60,000	93,106	190,000	3,563	135,000	19,382	10,000	67,325
2019	143,700	3,096	60,000	90,706	-	-	135,000	16,344	210,000	67,025
2020	150,900	2,536	65,000	88,306	-	-	140,000	12,969	215,000	60,725
2021	158,400	1,947	65,000	85,706	-	-	145,000	9,119	225,000	54,275
2022-2026	340,900	2,011	380,000	382,331	-	-	155,000	12,850	1,205,000	167,575
2027-2031	-	-	455,000	305,982	-	-	-	-	535,000	17,450
2032-2036	-	-	525,000	232,906	-	-	-	-	-	-
2037-2041	-	-	615,000	143,350	-	-	-	-	-	-
2042-2046	-	-	470,000	38,850	-	-	-	-	-	-
2047	-	-	-	-	-	-	-	-	-	-
Total	<u>\$ 1,061,000</u>	<u>\$ 17,358</u>	<u>\$ 2,750,000</u>	<u>\$ 1,556,549</u>	<u>\$ 375,000</u>	<u>\$ 14,157</u>	<u>\$ 840,000</u>	<u>\$ 92,808</u>	<u>\$ 2,400,000</u>	<u>\$ 462,614</u>

Year Ended June 30	Electric		Electric		Water		Wastewater		Total	
	Loan Payable		Loan Payable		Loan Payable		SRF Loan Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 37,500	\$ -	\$ 50,000	\$ -	\$ 23,844	\$ 11,508	\$ 9,344	\$ 19,705	\$ 620,988	\$ 191,634
2018	37,500	-	50,000	-	24,432	10,920	38,810	19,287	682,542	217,213
2019	37,500	-	50,000	-	25,032	10,320	39,353	18,744	700,585	206,235
2020	37,500	-	50,000	-	25,644	9,708	39,904	18,194	723,948	192,438
2021	37,500	-	50,000	-	26,268	9,084	40,462	17,636	747,630	177,767
2022-2026	84,373	-	133,335	-	141,288	35,472	210,960	79,528	2,650,856	679,767
2027-2031	-	-	-	-	159,444	17,316	226,134	64,353	1,375,578	405,101
2032-2036	-	-	-	-	60,416	1,350	242,399	48,088	827,815	282,344
2037-2041	-	-	-	-	-	-	259,835	30,653	874,835	174,003
2042-2046	-	-	-	-	-	-	278,524	11,962	748,524	50,812
2047	-	-	-	-	-	-	28,932	118	28,932	118
Total	<u>\$ 271,873</u>	<u>\$ -</u>	<u>\$ 383,335</u>	<u>\$ -</u>	<u>\$ 486,368</u>	<u>\$ 105,678</u>	<u>\$ 1,414,657</u>	<u>\$ 328,268</u>	<u>\$ 9,982,233</u>	<u>\$ 2,577,432</u>

See accompanying independent auditors' report.

ERWIN UTILITIES
Schedule of Utility Plant Activity by Segment
June 30, 2016

	Balance 6/30/2015	Additions	Retirements	Balance 6/30/2016
Electric System:				
Structures and permanent improvements	\$ 4,500,462	\$ -	\$ -	\$ 4,500,462
Equipment, furnishings, and distribution systems	22,454,655	2,031,718	(280,669)	24,205,704
Land and land rights	1,264,170	131,516	-	1,395,686
Construction in progress	340,994	353,590	-	694,584
Total Electric System	<u>\$ 28,560,281</u>	<u>\$ 2,516,824</u>	<u>\$ (280,669)</u>	<u>\$ 30,796,436</u>
Wastewater System:				
Structures and permanent improvements	\$ 6,979,090	\$ 1,361,676	\$ (10,541)	\$ 8,330,225
Equipment, furnishings, and distribution systems	5,825,929	158,635	(6,957)	5,977,607
Land and land rights	60,184	-	-	60,184
Construction in progress	570,744	1,874,185	-	2,444,929
Total Wastewater System	<u>\$ 13,435,947</u>	<u>\$ 3,394,496</u>	<u>\$ (17,498)</u>	<u>\$ 16,812,945</u>
Water System:				
Structures and permanent improvements	\$ 5,381,659	\$ 321,964	\$ -	\$ 5,703,623
Equipment, furnishings, and distribution systems	8,048,345	2,083,862	(74,872)	10,057,335
Land and land rights	216,090	-	-	216,090
Construction in progress	363,238	-	(335,008)	28,230
Total Water System	<u>\$ 14,009,332</u>	<u>\$ 2,405,826</u>	<u>\$ (409,880)</u>	<u>\$ 16,005,278</u>
Fiber System:				
Fiber services	\$ 15,306	\$ 31,657	\$ -	\$ 46,963
Construction in progress	-	6,164	-	6,164
Total Fiber System	<u>\$ 15,306</u>	<u>\$ 37,821</u>	<u>\$ -</u>	<u>\$ 53,127</u>
Total	<u>\$ 56,020,866</u>	<u>\$ 8,354,967</u>	<u>\$ (708,047)</u>	<u>\$ 63,667,786</u>

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Public Utilities
Town of Erwin, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Erwin Utilities (the "Utility") as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

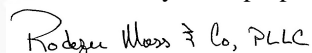
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Greeneville, Tennessee
September 26, 2016

Independent Auditor's Report on Compliance For Each Major Program
And On Internal Control Over Compliance Required By The Uniform Guidance

Board of Public Utilities
Town of Erwin, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Erwin Utilities' (the "Utility") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Utility's major federal programs for the year ended June 30, 2016. The Utility's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Utility's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Utility's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Utility's compliance.

Opinion on Each Major Federal Program

In our opinion, the Utility, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Utility, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Utility's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rodger Moss & Co, PLLC

Greeneville, Tennessee

September 26, 2016



ERWIN UTILITIES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

A. Summary of Audit Results

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Erwin Utilities were prepared in accordance with GAAP.
2. No significant deficiencies are disclosed during the audit of the financial statements. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of Erwin Utilities, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are disclosed. No material weaknesses are reported.
5. The auditors' report on compliance for the major federal award programs for Erwin Utilities expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CGR section 200.516 (a) are reported in this Schedule.
7. The program tested as a major program is Capitalization Grants For Clean Water State Revolving Funds (66.458).
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Erwin Utilities was determined to be a low risk auditee.
10. There were no questioned costs.
11. There is no summary schedule of prior year findings as there were no findings in the prior year.

B. Findings - Financial Statement Audit
None

C. Findings - Major Federal Programs Awards Audit
None